



April 25, 2006

To The Honorable Council
City of Norfolk, Virginia

Dear Lady and Gentlemen:

This letter formally serves to transmit the City of Norfolk Fiscal Year 2007 Proposed Operating Budget, Capital Improvement Plan and Annual Consolidated Plan. The City of Norfolk's total Financial Plan is \$1,130,551,856. Included in this annual plan are the following:

Type of Funds	Amount
General Fund Operating	\$771,050,898
Water Enterprise Fund	\$79,462,269
Wastewater Enterprise Fund	\$22,785,886
Storm Water Fund	\$10,209,842
Parking Fund	\$20,633,140
Other Funds	\$36,038,049
Annual Capital Improvements	\$180,665,300
Sub Total	\$1,120,845,384
Annual Consolidated Plan	\$9,706,472
Grand Total	\$1,130,551,856

The FY 2007 Proposed Budget utilizes revenues and expenditures to be received and expended in the fiscal year beginning July 1, 2006 and ending June 30, 2007. However, the City continues to take into account a long term perspective when assembling the annual budget. The decisions that we make today will contribute to our future destiny.

Each annual budget reflects a finite period of time within an ongoing financial continuum. Revenue and expenditure forecasts are developed based on five-year economic projections and multi-year historical trends and patterns. Yet, at a time when Norfolk is undergoing one of the greatest transformations in its history, and the nation's economy can be sent spinning by hurricanes, terrorism or gas prices, we

must develop the Budget with the understanding we are ***a changing city in changing times.***

After years of careful planning, the City is finally reaping the rewards of an economic investment strategy that has drawn national attention and private investment. Aided by an improved national economy, an expanding housing market and business base, the city's overall financial condition is improved. Yet, much of the monies anticipated will be needed to address long-delayed needs and community revitalization. Just as we have seen the long awaited turn around in Downtown, Ocean View and the promising Broad Creek, numerous other areas of the community await their turn for city investment. Southside, Fairmount Park and Greater Wards Corner are just a few of the many neighborhoods cueing up to have concentrated attention to achieve the same redevelopment experienced in other parts of the city.

The Proposed Budget rests on these cornerstones:

- ***Community:*** To continue building and maintaining strong neighborhoods;
- ***Youth Development:*** To protect and nurture our young people through support for healthy families, education, recreation and libraries;
- ***Public Safety:*** To continue to achieve a safe and clean City; and,
- ***Financial Stability:*** To make investments that build economic capacity and promote financial stability.

Fiscal Year 2006 was the first time in almost a decade that the City had sufficient ongoing revenues to support our ongoing expenditures. In FY 2007, we are faced with a number of ongoing needs that we must guard against trying to fix with one-time actions. In addition to real estate tax relief, these needs include:

- Maintaining existing service levels that are impacted by normal inflationary pressures.
- Responding to residents' requests for more and different services.
- Improving our aging infrastructure and public facilities and addressing deferred maintenance.

The challenge of this budget is crafting a way to reduce the residential real estate tax burden while maintaining a structurally balanced budget that addresses these needs. This is a dichotomy for which the answer is not simple and reaching consensus on the resolution is not easy. Yet in a changing city, we recognize and have tried to address our challenges through a balanced approach.

To better understand the economic environment in which these decisions will be made, it is important to begin with an economic overview.

ECONOMIC OVERVIEW

The national economy continued its expansion in 2005, but at a lower rate than 2004. The lower rate of growth in 2005 reflects a slowing of consumer and business spending, an acceleration in imports and a downturn in federal government spending. Per capita personal income grew 4.6% in 2005, slightly less than its 5% growth in 2004. The national economy is projected to have slightly lower growth in 2006 and 2007.

Norfolk is part of a global economy where forces beyond the City's control can have a significant impact. The continuing war, federal spending, and federal economic policies all impact Norfolk's future.

State Budget Issues

With at least 40% of the City's budget coming from the Commonwealth, the majority of these earmarked for basic services, the success of the city is dependent, in part, on the success of the state economy. In the past year, different from the national economy, the Virginia economy continues to experience solid growth. Unemployment continued its downward trend, employment has grown in nearly every industry sector, real wages and salaries and personal income increased sharply in fiscal year 2005, and the housing and retail markets performed well, according to economists at Virginia Commonwealth University.

But, the challenge of adopting a State budget, one that addresses transportation issues, eludes the General Assembly as this budget goes to print. The major categories of State support include: school funding, HB 599 funding, jail per diems, and aid to localities. We have developed the estimated State revenue to be received in FY 2007 in the Governor's amended budget for the biennium. However, depending on the final decisions as to funding for transportation, there is the potential of adjustment in other State funding categories. It is likely a State budget will not be decided until later in May, or even June, after the City must adopt its budget. While it was contemplated to set aside a reserve to backfill any State revenue losses, it was determined that such an approach would impact the City's ability to make certain critical decisions that need to be made with the adoption of the Budget. It is therefore proposed that any reductions in the anticipated State funds be absorbed through reduction actions in the areas in which the State reductions occur. For example, if a reduction occurs within education, one of the constitutional offices, so forth, a corresponding reduction would be made in consultation with the officials.

The uncertainty of the State budget does not make the development of the City budget easy, but we believe we have taken a reasonable approach.

REVENUE OVERVIEW

The City of Norfolk depends on a number of revenue sources to make up its General Fund. The most significant sources include:

- Categorical Aid from the Commonwealth - \$266 million (34.5%)
- General Property Taxes - \$231 million (30%)
- Other local taxes - \$148 million (19.2%)
- Non Categorical Aid from the Commonwealth - \$35 million (4.5%)

In FY 2007, funds are projected to grow by 6.1% or \$44.6 million over the FY 2006 Approved Budget. Revenues driving the growth include \$24.4 million in general property taxes and \$13.7 million in Categorical Aid from the Commonwealth (the majority of these funds are dedicated to schools).

When discussing the City's budget, a distinction that is rarely made is the amount of funds in which the City has little or no control. These "pass through funds" (accounting for almost 40% of the budget) are state and federal dollars that must be used in areas for which the funds are designated, such as schools, transportation, and aid to families.

The following highlights some of the key categories of local revenues and projections for Fiscal Year 2007.

General Property Tax

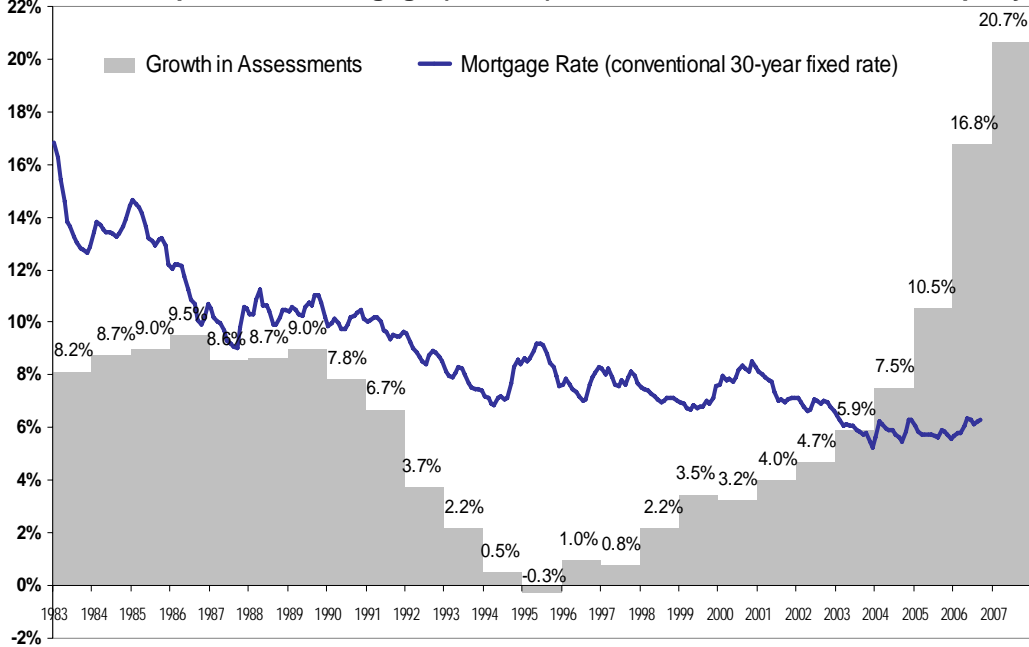
Total general property taxes include real estate taxes, personal property taxes and machinery and tools taxes. These taxes combined represent about 30% of the total budget and are expected to yield \$231 million, which is approximately \$24 million more than the current fiscal year.

Of most interest in this revenue category is real property taxes, approximately 23% of the City's overall budget. Soaring demand for housing and attractive interest rates have helped drive home sales. Given that property assessment must be based on fair market value, the assessed values on homes have grown accordingly. Many homeowners are challenged to keep pace as these assessments translate into higher property tax bills. This scenario began last year and is likely to continue into the next fiscal year.

We must remain mindful that the recent spikes in the value of residential real estate has a direct correlation to reductions in interest rates. As interest rates increase, the City is likely to experience a tapering off and then flattening of assessed values. To be clear, we are not forecasting a reduction in property values, but a flattening of growth. If the flattened growth does not keep pace with the increased cost of goods

and services, the City Budget will experience the expenditure to revenue shortfalls faced in the mid to late 1990's.

Chart I: Comparison of Mortgage (Interest) Rates to Assessed Value of Property



Other Local Taxes

In the category of Other Local Taxes, the City is projecting an overall increase as compared to last year's adopted budget, of \$4.3 million. While other local taxes represent 19% of the budget, this combined category is projected to grow only 3% above the FY 2006 Approved Budget.

This category includes a wide variety of taxes, among which are utility taxes, business license taxes, franchise taxes, motor vehicle taxes, and cigarette taxes. Some of the specific increases include:

- Sales and use tax is projected to generate \$31 million (a 6.5% increase)
- Admissions taxes are projected to generate \$4.2 million (a 2.7% decline)
- Restaurant food taxes are projected to generate \$23.8 million (a 5.4% increase)
- Utilities taxes are projected to generate \$40 million (a 1.1% decline)
- Business license tax is projected to generate \$25 million (9.5% increase)
- Hotel and motel taxes are projected to generate \$6 million; declining from the FY 2006 Approved Budget

In FY 2006, at the request of the Norfolk Hotel Motel Association, the City approved a \$1 flat tax per room per night stay. Revenues from the tax will be used solely by the Norfolk Convention and Visitors Bureau for visitor promotion and advertising for conventions and tourism. This new surcharge is estimated to generate approximately \$1.1 million of revenues that will encourage both business and tourism visitation. In order to facilitate this program, an additional \$100,000 is provided to NCVB for related operating expenses.

Charges for Services

Just two months ago, the Southeastern Public Service Authority (SPSA) increased their tipping fee for solid waste from \$51.98 per ton to \$57 per ton. It is expected that comparable increases will occur for yard waste disposal and recycling. As a result of these tipping fee increases, the City must consider passing this increase directly to customers.

The fees currently passed on to residents do not completely cover the delivery of waste management services provided by the City. (Were these services to be fully self supporting, the residential rate would almost double from its existing rate of \$12.75 per month to over \$23 per month). Also, SPSA has implied that the tipping fee may increase significantly in future years. For these reasons, the Proposed Budget includes a Waste Management Rate Stabilization Fund whereby the impact of future rate increases on residents may be minimized and trash trucks may be replaced in a more efficient and effective manner.

To fund these changes, the Proposed Budget recommends a rate increase for solid waste services. The rate increases will range from an average of \$1.75 per month for residential customers to an average of \$3.19 per month for businesses who typically receive once-a-week trash pickup. The rate increase will result in an additional \$534,000 in revenue that will be used to pay SPSA, and \$467,000 for the Stabilization Fund and purchase of two new refuse trucks at a cost of \$400,000.

TAX REFORM

During the past several months, the Council has engaged in a series of discussions regarding tax reform. These discussions, the views of the various Council members, and correspondence with City residents were taken into consideration during the Budget development. Through the Council discussions, several issues become quite clear:

- Council strongly desires more flexibility in developing local real estate tax reform strategies.
- Under the "Dillon rule", the City's discretion to develop real estate tax strategies is limited by what the Commonwealth allows.

- Outside of tax relief programs for seniors and disabled residents and across the board tax reductions in the form of pennies, the Commonwealth allows little flexibility for localities to develop real estate tax relief strategies.
- The Council desires to provide tax relief to address the spike effect of recent assessment growth for owner-occupied residential units.

Last year, the Council provided the equivalent of a 7.1 cent rate reduction (amounting to \$7.7 million in reduced revenues) through a series of tax relief strategies. These strategies included:

- Across the board relief in the form of a five cent reduction on the real estate tax rate (from \$1.40 per \$100 of assessed value to \$1.35 per \$100 of assessed value) for all property owners;
- Expanded relief (to the maximum levels then allowed by the State) through the Senior/Disabled Tax Relief Program;
- Expanded relief through a new Tax Deferral for Senior and Disabled Citizens; and,
- Targeted grants through the Residential Property Ownership Preservation Program (RPOP).

The FY 2007 Proposed Budget builds on last year's programs by:

- Cutting the tax rate by another five cents to \$1.30 per \$100 of assessed value and providing across the board relief to all property owners. This will be Norfolk's lowest tax rate since 1989.
- Simplifying and expanding the Senior/Disabled Tax Relief program to allow more senior and disabled residents to qualify for full or partial exemption from their real estate taxes. To be eligible for relief, home owners must:
 - Be 65 years of age or older, or totally and permanently disabled
 - Live in the home to be exempted from the real estate tax
 - Have a combined income that does not exceed \$52,000 and net worth, excluding house, does not exceed \$350,000.

By reducing the number of levels of relief, the number of participants eligible for full relief is substantially increased.

- Creating a locally-designed Universal Tax Deferral Pilot Program that allows a participant to defer any amount over the first 10% of assessment growth. To qualify, the property must be owner occupied and the primary residence of the applicant.
 - The combined household income cannot exceed \$100,000

- The resident must have lived in the home for a minimum of 5 years

Taxes deferred under the pilot program will be charged an interest rate of 3.5% and the deferred amount will be due upon sale or transfer of the property. This program combined with the across-the-board tax reduction of 5 cents will relieve the resident of approximately 61% of the tax growth in FY 2007. It is estimated the overwhelming majority of homeowners will be eligible for the program. This program will give residents another option in addressing rising real estate assessments until the Commonwealth provides localities with greater flexibility in addressing this issue. There remain concerns about the impact of tax deferrals on the ongoing stability of City revenues; therefore, parameters are proposed as to eligibility and this is a pilot program. Continuation or replacement of this program in future years will need to be decided in future fiscal years based on assessment growth, experience under the pilot program and other factors.

The Locally Designed Universal Tax Deferral pilot program has been budgeted at a cost of \$750,000. The targeted grants through the RPOP are recommended to be discontinued in FY 2007.

The total tax relief package is equivalent to a 9.5¢ tax rate reduction, as computed below:

	Reduced Potential Revenue	Tax Rate Reduction or Equivalent
Tax rate reduction from \$1.35 to \$1.30 per \$100 of assessed value	\$7.3 million	5¢
Senior & Disabled Tax Relief	\$6.2 million*	4¢
Senior & Disabled Tax Deferral Program	N/A**	N/A
Local Tax Deferral Program	\$750,000	.05¢
Total	\$14.250 million	9.5¢
* (\$900,000 of the \$6.2 million is the result of FY 2007 program enhancements. If only counting the enhancement, the total package is 6.1¢ rather than 9.5¢.)		
** assume no participants as was the case in FY 2006		

EXPENDITURE OVERVIEW

The FY 2007 Proposed Budget comprises both a summary of General Fund Operating Budget expenditures of \$771 million and a Five Year Capital Improvement Plan of \$180 million all funds of which \$130 million comes from General Funds.

On the Operating side of the Budget, the City expends over half of its budget for education, public safety, health, and human services alone. The City continues to be negatively impacted by inflationary cost increases in fuel and energy prices. For example, next year's budget anticipates a 67% increase in fuel prices resulting in a \$2 million impact. Costs such as these in non-discretionary items have a tremendous impact on the City's ability to provide core programs and services.

In an effort to better tailor and deliver services, the City has realigned three major departments into Neighborhood Preservation, Planning and Community Development, and Recreation, Parks and Open Space. This budget contains funding for additional staff to address the growing demand for services, for instance, funding is included to expand the hours at the Norfolk Wellness and Fitness Center. The new alignment consolidates related functions and removes duplication of effort.

Funding Capital Improvement needs is equally challenging. Escalating construction costs, caused by factors such as diversion of materials to the storm-damaged gulf and world-wide shortages of some building materials, are requiring additional funds for projects we previously thought fully funded. I have tasked Public Works, which has oversight for many of these projects, to look for innovative, cost-beneficial materials and designs going forward, and to guard against add-ons and design changes that further increase the cost.

The City also faces the increasing cost of replacing an aging infrastructure, previously under-funded. The backlog for replacement of service delivery vehicles is \$17.8 million. When equipment breaks down, the City is unable to deliver services and faces expensive repair bills. Many of our public buildings are also nearing the end of useful life, while at the same time, demand is increasing for new facilities to meet the needs of today's residents.

In setting priorities for the CIP and Operating budgets, we have focused on the basics, schools, roads and other infrastructure, libraries, public safety, recreation centers and the staffing necessary to support these services.

Despite these challenges, the Proposed Budget is a comprehensive plan of expenditures that meets the Council and community's priorities. With the City's six priorities in mind – community building, education, public safety, economic development, partnerships and public accountability – the Proposed Budget supports the identified needs of the City.

COMMUNITY BUILDING

Neighborhoods are the backbone of our community. As our economy has regenerated, many of our neighborhoods have also undergone a revitalization and rebirth. This last year, the City Council adopted a number of comprehensive neighborhood plans to guide and encourage that growth. These master plans paint a

broad canvass of needs ranging from basic infrastructure such as streets to quality housing.

For FY 2007, we have provided additional funding based on current remaining balances of unspent funds from prior years, timing of specific components in each plan and anticipated ability to use the money in the fiscal year in which the funds are approved. Within the Proposed Budget are more detailed descriptions for the use of the funds; however, the following summarizes the amounts proposed to continue the work to implement these on going, long term plans:

- Broad Creek - \$2.7 million
- Fairmount Park - \$2.2 million
- Southside - \$1.6 million
- Wards Corner - \$1.3 million

Funding provided by the City to the Norfolk Redevelopment and Housing Authority (NRHA) for neighborhood revitalization purposes includes:

- \$4.5 million to continue redevelopment and conservation efforts by providing affordable housing opportunities;
- \$600,000 for infrastructure improvements to Park Place East at Broadway;
- \$900,000 to support infrastructure needed for the redevelopment of the former Brewery, Goff and Church Street sites, and
- \$300,000 to support the continued implementation of the Willoughby Conservation Plan particularly the Land Acquisition Revolving Fund.

The Proposed Budget also continues the commitment to renew Neighborhood Commercial Corridors by providing \$600,000 to address infrastructure deficiencies. These areas include: Colley Avenue/21st Street, Wards Corner, Fairmount Park, Five Points, Riverview/35th Street, East Little Creek Road, and Southside.

Other infrastructure improvements that complement and encourage major private investment in Norfolk include:

- Atlantic City/Fort Norfolk area where \$1.7 million in street work will be completed by the City;
- Monticello and Freemason from Granby to Boush Streets where \$473,000 for sidewalks, landscaping, and street lights has been proposed; and
- Tidewater/Sewells Point area where \$1.7 million in upgrades to the roadway, traffic signals and storm water facilities has been proposed in support of retail development.

Commensurate with the infrastructure work being done in focused areas of the City, funding is provided annually for the Public Works Department to address citywide needs. In the proposed capital budget over \$9.3 million include:

- Street, sidewalk, and walkway repair \$1,100,000
- Bridge repair \$3,269,208
- Roof repair \$1,365,000
- Traffic signals \$1,000,000
- Street lights \$265,000
- Underpasses \$1,500,000
- Dredging and waterways \$500,000
- Residential gateways \$300,000

Finally, in our continuing environmental stewardship, the Proposed Budget provides funding to monitor and address shoreline erosion issues. Specifically, \$2.1 million is provided for beach reconstruction/erosion activities and \$210,000 is proposed for shoreline stabilization in the Chesterfield Heights area.

Libraries

Construction is currently underway for the new Pretlow Anchor Branch Library. Three years ago, the City discussed with the Library system support groups, the need to raise additional funds for non-construction items associated with the new Anchor Branch. A goal of \$1.5 million was established. Donations and grants have not been forthcoming, therefore the City, in preparation of the library's opening is providing an additional \$1,550,000 through a combination of capital and operating funds. There is \$1.1 million in capital funding for furnishings, fixtures, and equipment and \$450,000 in operating funds for new books and materials. While the Library will not open its doors until the fall of 2007 (which is in FY 2008), limited funds are also included in the FY 2007 Proposed Budget to ensure a smooth transition with the advance hiring of a few staff.

The cost to operate the new Pretlow Library for a full fiscal year is estimated to approach \$1.8 million.

There is an additional \$300,000 in operating funds to address needs throughout the library system.

As the City awaits its final authorization from the Federal Transit Authority on our proposed light rail line, \$250,000 is budgeted next year to begin a study regarding the relocation of the City's aging main branch library, which is in the proposed light rail route.

The City continues to work with the Joan and Ray Kroc Foundation to formulate a plan regarding the construction of a library and community center in Broad Creek. Future budget years will provide for the necessary funding once this partnership has clearly defined the scope of the project.

Parks and Recreation

The Proposed Budget also calls for continued reinvestment in the City's parks and recreation system. Included is funding for building maintenance and upgrades, bulkhead repair and reconstruction of a boat ramp. Also including, but are not limited to:

- \$7.5 million for a comprehensive redesign of Town Point Park. Given its 24 year history, it has served the city well as a focal point for festivals. However, time has taken its toll and this park is due for a renewal to meet the needs of our new downtown. In addition, \$787,500 is proposed to construct a pedestrian walkway from Granby Street, across Waterside Drive to the park.
- \$1 million for a new park and open space development on Bluestone Avenue,
- \$800,000 to complete the funding for the reconstruction of the Haven Creek boat ramp, another \$350,000 begins funding for restoration of the bulkhead and walking path at Haven Creek.
- \$1.2 million to begin renovations to Northside Park for additional softball fields
- \$330,000 for the development of a new marina adjacent to Nauticus and the new cruise terminal,
- \$500,000 for preliminary studies and design for an aquatics facility to replace the Berkley pool on the Southside area. This project will require multi-year funding for an estimated cost of \$3 million.
- \$3.5 million to complete funding for the construction of the Lambert's Point Community Center
- \$1.7 million to complete funding for the new Norview Community Center

Community Services

The City continues its firm commitment to helping those who are in need through the services of our Office to End Homelessness, Department of Human Services and the Community Services Board. In the Proposed Budget, a variety of initiatives are launched or continued with our financial support. Of major significance is the City's participation in a multi-city project including Portsmouth and Virginia Beach to construct a Single Room Occupancy (SRO) housing project in Park Place. This facility will provide critically needed housing for individuals who are in transition to self-sufficiency. The FY 2007 Proposed Budget provides \$300,000 towards the City's share of the construction of this facility. This is the completion of capital funds committed to this project in FY 2006.

The Community Services Board continues to be a vital partner to the City. In the FY 2007 budget, funding is provided to:

- Enhance services to the homeless and to address people who are on waiting lists for services (\$575,000);
- Hire two case managers for the SRO; and
- Expand a successful violence prevention program to our middle schools.

Early Childhood Development is crucial for a child's healthy development and future success. An early childhood development program is funded at \$75,000 to further explore the feasibility of a model early childhood intervention initiative for children four months to four years of age from high risk home environments.

In support of the City's after school initiative, funds are provided for the continuation of the Model Middle School Program. The Proposed Budget provides funding to annualize the program started in FY 2006 at Lake Taylor Middle School and adds a program at Blair Middle School. Together the cost for programming at the two schools will be \$406,025.

The Proposed Budget also provides \$1.8 million for lease payments, operating costs, and program services for the new Workforce Development Center. These funds support a unique program that will provide daycare services for adults participating in career counseling and life skills training at the center. While their children are being cared for, the program participants can focus their energies on critical skills.

EDUCATION

This last year, Norfolk Public Schools has reaped the benefits of years of hard work. As the winner of the Broad Prize for Urban Education, Norfolk has received national attention for demonstrating the greatest improvements in student achievement. The prize also contains \$500,000 in scholarships. The City's financial investment in our schools has resulted in major strides in academic advancement for our students and now serves as a national model of a "can do" attitude.

Norfolk prides itself in valuing the educational needs of our children. As a matter of practice, the City has repeatedly provided funding in excess of State requirements to meet our public education needs. This year, the Proposed Budget provides for \$308,714,210 to schools of which \$13,601,822 represents increased state expenditure authority, \$4,000,000 is the City's increased contribution, \$500,000 represents the increase in federal appropriations authority, and \$147,788 constitutes the increase in other local fund-authority.

The City's base budget also continues to provide millions of additional dollars for services, such as school nurses, and maintenance of school play equipment,

grounds, and athletic fields. The Proposed Budget initiates a \$2.5 million annual allocation to assist schools in meeting their deferred maintenance needs.

Combined between the operating and deferred maintenance, new funds for operations increased by \$6.5 million resulting in full funding of the School's FY 2007 request. This is the largest increase in school funding in ten years.

Current initiatives also include the existing consortium between the Schools and the City to examine health care insurance cost savings. Over the last year, the City and Schools have been participating in a Shared Services Study. Through this process, the City and the Schools will identify opportunities for additional use of technology and automation, as well as best practices for combined service delivery in such areas as purchasing, communications, and human resources. It is without a doubt that funding for public education is the best investment a city can make.

The physical environment in which learning takes place is critical. In FY 2006, \$26.8 million was originally budgeted for the construction of Coleman and Crossroads Elementary Schools. This cost has now been revised based on increased construction material costs as well as refinements to the building design. The adjusted cost is now \$44.4 million, resulting in a \$17.6 million change for which the City will fund \$9.4 million. These funds provided by the City will allow Coleman Place Elementary School to stay on schedule for its completion. To accommodate the shortfall in funds to construct Coleman Place, some projects in the City's Capital Budget were shifted to later years to make capacity for this additional funding. Therefore, in subsequent years, NPS has committed to identifying other funds to help address the construction of the new Crossroads Elementary School.

Next year's budget also continues our ongoing commitment to work with our partners in higher education. \$500,000 is provided to continue infrastructure improvements along Brambleton Avenue in support of Norfolk State University's Marie McDemmond Center for Applied Research.

The City also continues its partnership with Old Dominion University (ODU) as we provide \$4,750,000 for street improvements to the southern edge and northern edge of the Lambert's Point community.

In addition, \$500,000 has been provided for design and engineering of infrastructure improvements meant to enhance and support private sector investments along the Hampton Boulevard corridor in between 24th Street and 38th Street as well as provide for a gateway into the 35th Street corridor of the Highland Park and Park Place neighborhoods.

PUBLIC SAFETY

Police

Norfolk, along with the nation this last year, experienced an unusual increase in crime. This national crime rate surge cannot be attributed to any one factor. While Norfolk's overall crime rate remains 40% lower than 15 years ago, this does not minimize the need for us to stay vigilant in our efforts to address our public safety needs.

Over the last several months, the Police Department initiated a comprehensive reorganization of its patrol services. This reorganization is comprised of the creation of a third patrol division which has added six patrol car districts and three community connection centers. In the FY 2007 Budget, \$867,000 in increased operating funds and significant capital funding has been proposed for a number of key initiatives to expand our public safety efforts:

- \$500,000 to continue the design of the second precinct
- \$3.5 million for a new Police Pistol Range
- \$350,000 to begin design for a new Animal Shelter
- \$424,966 to pick up the cost of eleven officers previously funded under the federal COPS Program which expires in June 2006.
- \$193,307 for various supplemental personnel costs
- \$100,000 for various operational improvements
- \$12,000 to support existing Police in-vehicle camera systems

Fire-Rescue

This last year, the Fire-Rescue Department continued to show its expertise and commitment by joining the FEMA Urban Search and Rescue Task Force to assist Gulf Coast residents in the wake of Hurricane Katrina. Increasingly, the role of Fire – Rescue is focused on emergency medical services and disaster response. To continue to meet the changing needs of our community, over \$1 million is provided to:

- Continue the Master Firefighter Program which allows firefighters with at least 6 years of experience to upgrade their training and be compensated with a 2.5% increase in salary the enhanced skill level (\$145,000)
- Cover overtime requirements based on staffing needs (\$200,000)
- Provide training to allow EMT – Enhanced personnel to upgrade their certifications to an EMT – Intermediate (\$183,800) and provide training to

allow EMT-Basic personnel to upgrade their certifications to an EMT-Enhanced (\$79,648)

- Add six (6) Operations Officers to reduce the administrative workload of sworn staff and return uniformed officers back to their field units (\$168,025)
- Improve infrastructure for Fire-Rescue Facilities (\$700,000)
- Support operational improvements (\$200,000)

Sheriff and Jail

The Norfolk City Jail consistently experienced overcrowding issues over this last year. The City Council, in being briefed on this situation, has concurred with numerous efforts taken by the Sheriff's Office to address this situation. The Proposed Budget continues to project daily populations in excess of the facility's limit of 1600 inmates. As a result, various expenditure adjustments are made in the Proposed Budget to accommodate the increased inmate population:

- \$625,786 for increased medical care costs
- \$252,900 for increased costs for inmate meals
- \$100,000 for additional temporary employees
- \$195,250 to cover the per diem increase and additional inmate days at the Regional Jail

Among the options that have been explored to reduce jail costs, has been the use of GPS electronic monitoring systems. These systems allow offenders who are not at risk to the community to return to their homes yet be monitored regarding their movements. Beginning in FY 2007, the jail will acquire the necessary equipment to reduce the jail population by 100 inmates a day by implementing this program. As well, the Sheriff will continue to send more inmates to the regional jail. Unless, we find holistic ways in which to prevent crime, the jail overcrowding will require the City to consider another permanently constructed expansion to the jail or other costly capital alternatives.

More than the cost of increased incarceration is the reality of what this really means as to increasing societal issues and the negative impact on family life and our youth.

Courts

The Five Year Capital Improvement Plan calls out a long awaited project to rebuild our Court House complex. Caseload volume has outgrown the ability for our existing facilities to handle. Fiscal 2007 begins the process to set aside \$95 million over a 5 year period to finance this project. Based on the constraints of the capital budget and revised estimates regarding the cost of the project, it was necessary to fund the

final year of the project in FY 2010. Next year, preliminary design as well as planning and construction for a temporary facility will begin as the first phase of this project (\$6.5 million) begins.

ECONOMIC DEVELOPMENT

Despite the recent announcement by Ford Motor Company of the intended closure of its Norfolk plant in 2008, Norfolk remains an economically vibrant City. In fact, Norfolk's continued economic rebirth is the envy of Virginia cities. This last year, Forbes Magazine ranked Norfolk as one of the best places for business and careers, while Inc. Magazine ranked us one of the best places in the nation based on growth. The City has over a billion dollars of development in progress and growing on a daily basis. Evidence of this continues with commitments such as:

- Trader Publishing's commitment to build a \$51 million dollar corporate center;
- Sentara Healthcare's \$100 million dollar heart hospital;
- Granby Towers 31 story \$100 million condominium project;
- Harbor Heights \$38 million mixed use development project;
- Bristol Development's \$30 million condominium project, Row at Ghent;
- Kotarides Development's \$40 million dollar residential project;

The potential impact the Ford plant closure in 2008 has not been factored into the FY 2007 Proposed Budget. However, the potential impact of this decision will be factored into the City's Five-Year Forecasting Process. Announcements such as the Ford announcement highlights the importance of taking into account a long-term outlook when developing budgets.

Given the rapid revitalization of our downtown, the City Council has continued to focus our economic development initiatives on key strategies that have long term revenue potential. Among these initiatives has been our partnership with RLJ Development and Fulco Development to build a Hilton Hotel, conference center and parking garage. The City's investment in this project comprises a budgetary commitment of \$15 million to design and begin construction of a state of the art conference center. Fiscal year 2008 will complete funding for this facility.

Simultaneously, we continue to reinvest in the Waterside Marriott Convention Center. Now over 10 years old, the facility has been the cornerstone of our meeting and event market. The City will be providing \$1.5 million in a needed reinvestment to refresh this key companion meeting facility.

The City will open its new Cruise Terminal with almost 60,000 square feet of public multi use space, but it will generate spin off tourism revenue for hotels, restaurants, and our retail partners. It is anticipated that debt service on the terminal will be paid from the cruise business related revenues generated.

Reflective of our changing times has been the emergence of transportation as a critical issue in the region. Future traffic projections without additional road capacity, congestion-easing and system – wide connectivity will have dire impacts on the region's economy and quality of life.

For several years, the City has been working diligently with the Federal Transit Administration and the Hampton Roads Transit Authority to develop a light rail project to help take some of the pressure off our highway system. We anticipate purchasing 7.5 miles of right-of-way from Norfolk Southern and continue to budget for the future acquisition of land and construction of a light rail system. In FY 2007, we hope to get the green light to proceed and therefore have budgeted \$6,376,000 in conjunction with HRT to begin the design phase. Over the next five years, the City will be committing over \$31.6 million to complete the design and begin construction of this transit system.

Cultural Arts and Entertainment

In the next year, the City of Norfolk will celebrate its 325th anniversary along with the nation celebrating its 400th anniversary of the Jamestown settlement. In honor of these cornerstone celebrations, funding has been proposed for the City to join with our cultural arts partners for a variety of community celebrations. Events that are under production that are sponsored by the City include:

- Chrysler Museum - \$51,000 for the exhibit "Masterpieces from an English Country House: the Fitzwilliam Collection"
- Virginia Arts Festival - \$175,000 for various performance groups from the British Isles to participate in the 2007 festival
- Festevents - \$200,000 for Sail Virginia in 2007

The FY 2007 budget also provides ongoing financial support for a variety of cultural arts programs including, but not limited to:

- \$1 million to the Chrysler Museum as part of the 5 year commitment for their capital campaign and \$500,000 for façade repair work
- \$750,000 to Nauticus for exhibit development and \$1,746,000 for operating support
- \$1.7 million (over two years) to match the capital campaign for the Virginia Arts Festival
- \$1.5 million to match the Batten Foundation grant for the implementation of the Virginia Zoo Master Plan
- An additional \$50,000 to the Norfolk Arts and Humanities Commission for the City's arts grants program
- \$1,428,000 in annual operating support for Festevents

The City also continues to reinvest in our sports, entertainment and cultural facilities. The FY 2007 budget proposes repairs and updates to the following facilities:

- To improve the flexibility of SCOPE, \$1.5 million is provided for new rigging to allow for larger concerts and stage shows and \$250,000 to reconfigure the facility for smaller shows.
- Chrysler Hall will continue its restroom renovation program started this last year (\$400,000). \$175,000 will be provided for backstage improvements.
- Harbor Park and MacArthur Memorial air conditioning replacements are funded.

REGIONAL AND OTHER PARTNERSHIPS

The City continues to be an active partner in various regional partnerships and initiatives that support our community's interests. Included in this year's budget are various adjustments to our costs for participation and/or enhanced services. Worth highlighting are some of the following investments made in the City's partnership with other agencies:

- Hampton Roads Transit (HRT)—An increase of \$1.4 million for a total of \$5,960,949 to support public bus service in Norfolk.
- Hampton Roads Military and Federal Facilities Alliance - \$94,080 for a regional partnership related to maintaining local military assets.

PUBLIC ACCOUNTABILITY

The City of Norfolk has a workforce of over 4000 full time and 900 part time status employees. Without a doubt, our employees are our daily mainstay to deliver services to the public. Our employees take great pride in the work they do and are to be commended for their dedication. My Proposed Budget includes a 2% General Wage Increase (GWI) for all employees, and retention of the 2.5% step increase for eligible employees on their anniversary date. The total cost of this salary adjustment will be \$5.5 million. In addition to this salary adjustment, the City annually conducts surveys to ascertain its competitiveness in the labor market. Approximately \$621,000 is provided to make necessary adjustments to jobs that are out of sync with the market. Jobs requiring these re-grade adjustments include for example, police and fire recruits, refuse collectors and custodians.

An additional change in compensation practices includes a proposal to allow refuse collection employees that work holidays and receive compensatory time to exchange this time for direct pay. The decision to collect refuse on holidays has been popular with residents, but a challenge for the City because of the difficulty of scheduling

compensatory time. It is estimated that \$107,650 will be paid out for holiday time next year.

Health insurance costs continue to be a major concern of all public and private sector employers. The City's health insurance costs continue to increase at a rate of 8 percent, despite our continued efforts to implement wellness, disease prevention and prevention programs. This cost increase of \$1 million will be absorbed by the City rather than passed on to the employees, ensuring that our total compensation package remains competitive and we continue to attract and retain quality workers.

The City's share of costs for employee retirement plans also continues to increase. This year, included in the base contribution requirement of \$25.7 million is the increase associated with the previously granted Public Safety retirement incentive program. The Proposed Budget also incorporates 1.5% retiree cost of living adjustment.

In 2007, the City will be required to reinstate payments for group life insurance payments which had been suspended since 2002. The cost of these reinstated payments will be \$1.7 million. This program is through the Virginia Retirement System (VRS) and VRS determines the cost each year.

Funding of \$100,000 is provided to the City Assessor's Office to facilitate the acquisition or development of software programs that will enable the City to track historic trends in taxation and run future prediction models. Expending of these funds have been placed on reserve for the new City Assessor to lead this effort.

Affordability

The City of Norfolk, even with the current resurgence in residential and commercial development, remains the most fiscally stressed City in the Commonwealth. In support of efforts to maintain the City's high quality of life, the FY 2007 - 2011 CIP includes projects that promote economic development, enhance neighborhoods, foster cultural awareness, and develop effective transportation systems, create and maintain parks and recreation facilities, and address the City's aging infrastructure. While these projects are needed, annual requests far exceed the City's ability to afford every needed project.

There are several large scale projects in the Proposed FY 2007 CIP that account for a major portion of the expenditures. These capital expenditures reflect the City's desire to increase its economic viability. However, as proposed, the planned project expenditures extending into the planned years of the CIP, particularly in FY 2008, exceed the City's targets, which determine affordability. Assuring the timely completion of these projects will require the City to review our CIP priorities during FY 2007 to significantly reduce the current FY 2008 portion of the plan.

ENTERPRISE FUNDS

Water Fund

The proposed 2007 operating budget for the Water Fund is \$79,462,269, a \$5,985,569 increase over the FY 2006 budget. Rate adjustments approved by the City Council in 2004 have been annually implemented to support the 10 year, \$340 million dollar capital improvement plan. In 2007, the rate adjustment begins to be computed on the basis of a 3.5% annual increase per ccf. Next year's rate will consequently be established at \$3.37 per ccf.

Wastewater Fund

Similar to the Water Fund, the Wastewater Fund also begins to adjust annually by 4% starting in FY 2007. Next year's rate per ccf will be \$2.67.

Storm Water Fund

Storm Water rates have not been adjusted in the City of Norfolk since 1998 and are currently at \$5.48 for residential service per month. Costs have increased substantially for labor, materials, and personnel costs in the last 8 years and dictate the need for a rate increase. In addition, the 2003 Storm Water Master Plan indicated over \$122 million in drainage system repairs needed throughout the community based on the fact that the average age of the system is 57 years.

The Fiscal Year 2007 budget proposes a rate increase of \$2.13 which brings the new rate to \$7.60 and will generate \$2.8 million in revenue towards these expenditures.

Parking Fund

The Parking Fund continues to operate and redesign itself to meet the growth of the downtown communities. It comprises over 19,000 parking spaces in 14 garages and 14 surface lots. It supports the NET system in making the downtown a "park once" experience.

The Parking Fund is upgrading and renewing the NET downtown transportation system as well as its existing facilities. Elevator replacements and enhanced payment systems in garages are priorities.

Consolidated Plan

The Consolidated Plan, funded by the U.S. Housing and Urban Development Department provides Norfolk in FY 2007 with a total of \$9,706,472 in grant funds, which represents an 8% decrease from FY 2006.

The funds are provided through four entitlement programs: the Community Development Block Grant \$7,255,090, the HOME Investment Partnership \$2,190,164, the Emergency Shelter \$224,557; and the American Dream Downpayment Initiative 36,661.

Requests for funds from community organizations and the NRHA were \$14,027,642, more than \$4,321,170 over available funding. It is anticipated that funding will continue to decrease which will continue to pose challenges to these important service delivery partners.

CONCLUSION

Norfolk is indeed a changing city in a changing time. We have reinvented ourselves many times over in our 325 years of existence. Without a doubt, however, the last decade has been a measure of change that has been swifter than many could have imagined. These changes reflect a city that has emerged as Virginia's urban center providing business, cultural, medical, educational, and financial leadership. Our rapid growth and regeneration, however, has posed numerous challenges that require us to carefully manage our financial resources. When times were tougher, we kept faith with our residents by not increasing the real estate tax rate. Instead, we put in place initiatives to increase the city's tax base by attracting businesses and private investment. Now, as some of our most faithful residents struggle with the tax bills caused by an unprecedented increase in the value of their homes, our challenges include bringing tax relief while ensuring that basic City services continue to be provided to all our citizens regardless of a roller coaster economy. This Budget is presented knowing that we must stay the course of ensuring that the short term economic boom is matched by a prudent fiscal strategy. The strategy I have presented in the FY 2007 Proposed Budget balances tax relief with the provision of police, fire, recreation, library and other essential services.

It is my pleasure to present to you the proposed Fiscal Year 2007 Budget.

Respectfully submitted,



Regina V.K. Williams
City Manager